

Candax Energy Inc.

CAX : TSX : C\$0.68

SPECULATIVE BUY

Target: C\$1.08

Terry Peters 1.416.869.6597
 terry.peters@canaccordadams.com
 Asad Rawra CA, CPA 1.416.869.7397
 asad.rawra@canaccordadams.com

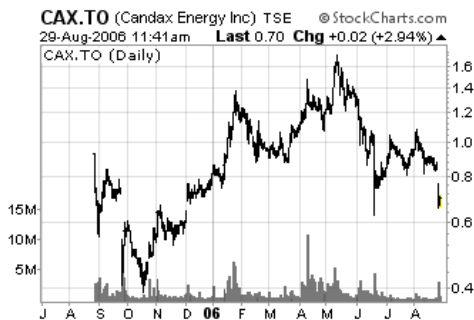
COMPANY STATISTICS:

52-week Range: \$0.39-1.73
 Avg. Daily Vol. (000): 1038
 Market Capitalization (M): \$109.0
 Shares Out. (M) basic: 160.3
 Shares Out. (M) fd: 172.4
 Net Long-term Debt/CF: 46.1x

EARNINGS SUMMARY:

FYE Dec	2004A	2005A	2006E	2007E
Equivalent Production (boe/d):	0	1,357	1,496	3,170
EPS:	(0.10)	(0.02)	(0.02)	0.05
Operating EPS:	(0.01)	(0.01)	(0.02)	0.05
P/Operating EPS:	NA	NA	NA	12.5x
CFPS:	(0.10)	0.05	0.01	0.17
P/CF:	NA	13.2x	NA	3.9x

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Candax Energy Inc. is an international energy company involved in oil and gas exploration and production and power generation. Candax has operations in Tunisia and looks to expand into the Middle East and other parts of North Africa. With an experienced, international oil and gas knowledgeable management team inclusive of Michael Wood, President and CEO, John Clarke, Executive Vice President and Chris Hopkins, CFO; Candax is primed for growth.

All amounts in C\$ unless otherwise noted.

Energy – Oil and Gas, Exploration and Production

NO CHAAL RESULTS CREATE BIG VALUATION DISCOUNT

Event

Candax announced yesterday during market hours that operations at the Chaal-1 had been suspended. The company was in the process of utilizing a coiled-tubing unit to displace heavy mud in the well and then to re-perforate and perform an acid squeeze on prospective zones. However, due to a leak in the tubing and a resulting loss in pressure, the company was unable to determine reliable test flow rates. Candax now requires a rig to resolve the problem and any possible actions will be taken post discussions with its partners.

Impact

The negative reaction in the market to the Chaal news has created a big valuation discount compared to either Candax's NAV or its price to cash flow multiple.

Action

We are maintaining our SPECULATIVE BUY rating and \$1.08 target (which includes previously booked probable reserves at Chaal).

Valuation

Candax is trading at a 23% discount to our NAV estimate excluding Chaal and 36% including Chaal. On a P/CF basis the company is trading under 4 times our 2007 estimate. Our target price of \$1.08 is a close proxy of our current estimate of Candax's NAV.

Next Catalyst

We expect that the arrival of a rig at El Bibane in September will be a positive catalyst, with production expected to re-start during Q4/06.

Canaccord Adams is the global capital markets group of Canaccord Capital Inc. (CCI : TSX|AIM)

The recommendations and opinions expressed in this Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document.

Big valuation discount – looking for a catalyst

Due to the negative reaction to the Chaal news, Candax's current share price represents approximately a 36% discount to its NAV. See Figure 1 for a calculation of the company's NAV, both excluding and including probable reserves from Chaal, and its P/CF multiple.

Figure 1: Calculation of Candax NAV

Net asset value calculation	\$ million	Per Share Diluted
Proven Reserves, 10% pre-tax	47,900	0.28
Probable Reserves, 10% pre-tax	44,700	0.26
Value of reserves excluding Chaal	92,600	0.54
Cash less LTD	50,140	0.29
Option proceeds	9,208	0.05
Net Asset Value excluding Chaal (fd)	59,348	0.88
Chaal, Probable Reserves, 10% pre-tax	32,250	0.19
Carry on Chaal well	0	0.00
Net Asset Value including Chaal (fd)	201,996	1.07
Shares Outstanding (million fully diluted)		172.4
Current share price		0.68
Discount to NAV excluding Chaal		22.9%
Discount to NAV including Chaal		36.4%
2007e CFPS		0.17
P/CF		3.9X

Source: Company reports, Canaccord Adams estimates

New estimates

We are introducing our new earnings and cash flow estimates for 2006 and 2007. Our previous estimates were under review while we finalized the timing estimate for the El Bibane redevelopment. We would note that there can be a timing difference for Candax on a cash basis due to production being stored prior to sales. Our estimates are summarized in Figure 2.

Figure 2: Financial and operating statistics

(\$ millions)	Q1/06	Q2/06	Q3/06e	Q4/06e	2006e	2007e
Net income	1,638	(460)	(888)	(3,674)	(3,384)	9,929
Reported EPS (fd)	\$0.01	(\$0.00)	(\$0.01)	(\$0.02)	(\$0.02)	\$0.05
Operating EPS (fd)	\$0.01	(\$0.00)	(\$0.00)	(\$0.02)	(\$0.02)	\$0.05
Cash flow	5,871	(1,087)	(720)	(3,054)	1,011	31,919
CFPS (fd)	\$0.03	(\$0.01)	(\$0.00)	(\$0.02)	\$0.01	\$0.17
Capital expenditures	2,373	6,751	10,000	14,476	33,600	20,000
Production						
Liquids (b/d)	654	578	547	1,665	1,096	2,504
Gas (mmcf/d)	0	0	0	4	2	4
Equivalent (boe/d)	654	578	547	2,332	1,496	3,170

Source: Company reports, Canaccord Adams estimates

Conclusion

The market has already reacted negatively to the Chaal news and we expect that after initial selling pressure Candax shares will receive some support from its underlying NAV, which includes a net cash position of \$0.29 per share. Our NAV estimate for Candax, excluding Chaal, is \$0.88 and the current share price of \$0.68 represents a 23% discount to this value. Exploration potential still exists that would increase the value for Chaal, but we expect the market to discount this prospect until future exploration plans are announced.

In the interim we look forward to the rig mobilization at El Bibane during September as the next catalyst for Candax. We continue to rate Candax shares a SPECULATIVE BUY.

Investment risks

In addition to operating risks inherent in oil and gas exploration and production activities, oil and natural gas price realizations and production may be lower or higher than our forecast. Collectively these risks could impact the company's valuation and our forecasts.

Other risks include:

Candax acquired producing assets that are mature with a relatively short reserve life and a high water cut. There is no guarantee that all future volumes of production will occur in sufficient quantities to make existing fields commercial.

Two major fields (El Bibane and Ezzaouia) currently represent greater than 95% of the proved value of Candax. Should either of these fields experience a production-related problem for a prolonged period of time, then there could be a material impact on our financial and valuation estimates.

Unless new discoveries or assets are acquired, future cash flows from existing assets will decline substantially, which may impact the future valuation of Candax.

All producing and potential properties are presently located in Tunisia. Although currently seen as a relatively stable government, the company's operations, financial results, and valuation could be adversely affected by events beyond its control taken by the current or future governments with respect to policy changes regarding taxation, regulation, and other business environment changes.

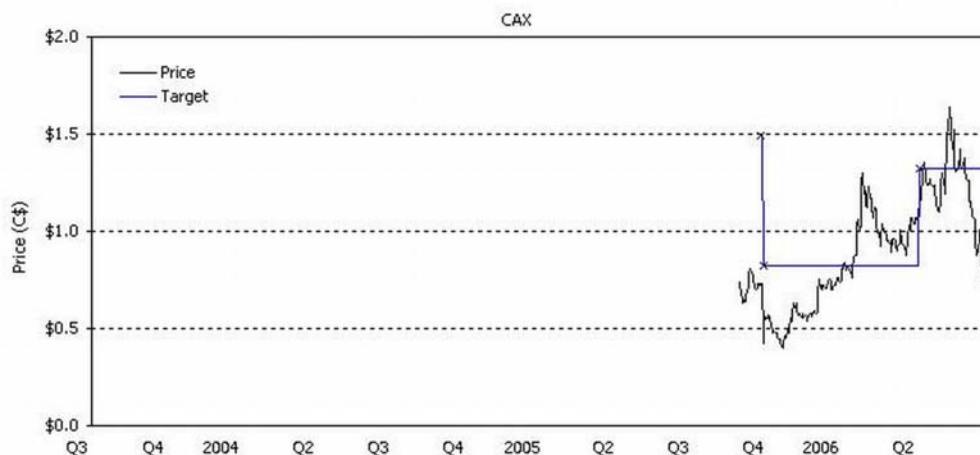
An analyst has visited the issuer's head office in Toronto and its field operations in Tunisia. No payment or reimbursement was received from the issuer for the related travel costs.

APPENDIX: IMPORTANT DISCLOSURES

Analyst Certification:

Each Investment Analyst of Canaccord Adams whose name appears on the front page of this Investment Research hereby certifies that (i) the recommendations and opinions expressed in the Investment Research accurately reflect the Investment Analyst’s personal, independent and objective views about any and all of the Designated Investments or Relevant Issuers discussed herein that are within such Investment Analyst’s coverage universe and (ii) no part of the Investment Analyst’s compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the Investment Analyst in the Investment Research.

Price Chart:*



Date	Analyst	Rating	Target Price
1) 09/22/05	TP	Speculative Buy	1.50
2) 09/26/05	TP	Speculative Buy	0.83
3) 04/04/06	TP	Speculative Buy	1.33

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 1 August 2006)

Rating	Coverage Universe		IB Clients	
	#	%		%
Buy	291	56.3%	41.2%	
Speculative Buy	61	11.8%	60.7%	
Hold	144	27.9%	31.3%	
Sell	21	4.1%	19.0%	
	517	100.0%		

Canaccord Adams Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

“Risk-adjusted return” refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Adams Research Disclosures as of 29 August 2006

Company	Disclosure
Candax Energy Inc.	1A, 2, 3, 7, 11 (John Zaozirny)

1	The relevant issuer currently is, or in the past 12 months was, a client of Canaccord Adams or its affiliated companies. During this period, Canaccord Adams or its affiliated companies provided the following services to the relevant issuer: A. investment banking services. B. non-investment banking securities-related services. C. non-securities related services.
2	In the past 12 months, Canaccord Adams or its affiliated companies have received compensation for Corporate Finance/Investment Banking services from the relevant issuer.
3	In the past 12 months, Canaccord Adams or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of the relevant issuer or any publicly disclosed offer of securities of the relevant issuer or in any related derivatives.
4	Canaccord Adams acts as corporate broker for the relevant issuer and/or Canaccord Adams or any of its affiliated companies may have an agreement with the relevant issuer relating to the provision of Corporate Finance/Investment Banking services.
5	Canaccord Adams or any of its affiliated companies is a market maker or liquidity provider in the securities of the relevant issuer or in any related derivatives.
6	In the past 12 months, Canaccord Adams, its partners, affiliated companies, officers or directors, or any authoring analyst involved in the preparation of this investment research has provided services to the relevant issuer for remuneration, other than normal course investment advisory or trade execution services.
7	Canaccord Adams intends to seek or expects to receive compensation for Corporate Finance/Investment Banking services from the relevant issuer in the next six months.
8	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.
9	The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a short position in the shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity decreases.
10	Those persons identified as the author(s) of this investment research, or any individual involved in the preparation of this investment research, have purchased/received shares in the relevant issuer prior to a public offering of those shares, and such person's name and details are disclosed above.
11	A partner, director, officer, employee or agent of Canaccord Adams and its affiliated companies, or a member of his/her household, is an officer, director or employee, or serves as an advisor or board member of the relevant issuer and/or one of its subsidiaries, and such person's name is disclosed above.
12	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, Canaccord Adams or its affiliate companies, in the aggregate, beneficially owned 1% or more of any class of the total issued share capital or other common equity securities of the relevant issuer or held any other financial interests in the relevant issuer which are significant in relation to the investment research (as disclosed above).
13	As of the month end immediately preceding the date of publication of this investment research, or the prior month end if publication is within 10 days following a month end, the relevant issuer owned 1% or more of any class of the total issued share capital in Canaccord Adams or any of its affiliated companies.
14	Other specific disclosures as described above.

Canaccord Adams is the business name used by certain subsidiaries of Canaccord Capital Inc., including Canaccord Adams Inc., Canaccord Adams Limited, and Canaccord Adams, a division of Canaccord Capital Corporation. Clients of Canaccord Adams, in the past 12 months, may have been clients of Canaccord Capital Corporation, Canaccord Capital (Europe) Limited, Canaccord Capital Corporation USA Inc., and/or Adams Harkness Financial Group Ltd.

The authoring analysts who are responsible for the preparation of this investment research are employed by Canaccord Adams, a securities broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal (all Canada), Boston, New York, San Francisco (all US) and London (UK).

In the event that this is compendium investment research (covering six or more relevant issuers), Canaccord Adams and its affiliated companies may choose to provide specific disclosures of the subject companies by reference, as well as its policies and procedures regarding the dissemination of investment research. To access this material or for more information, please send a request to Canaccord Adams Research, Attn: Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2 or disclosures@canaccordadams.com.

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the Corporate Finance/Investment Banking

revenues and general profits of Canaccord Adams. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Corporate Finance/Investment Banking activities, or to recommendations contained in the investment research.

Canaccord Adams and its affiliated companies may have a Corporate Finance/Investment Banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith and in the normal course of market making. Accordingly, Canaccord Adams or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, Related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. This investment research has been prepared in accordance with Canaccord Adams' policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Adams' policy is available upon request.

The information contained in this investment research has been compiled by Canaccord Adams from sources believed to be reliable, but (with the exception of the information about Canaccord Adams) no representation or warranty, express or implied, is made by Canaccord Adams, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Adams has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute Canaccord Adams' judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Adams salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. Canaccord Adams' affiliates, proprietary trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this investment research may not be eligible for sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Adams, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this investment research.

For Canadian Residents: This Investment Research has been approved by Canaccord Adams, a division of Canaccord Capital Corporation, which accepts responsibility for this Investment Research and its dissemination in Canada. Canadian clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Adams, a division of Canaccord Capital Corporation in their particular jurisdiction.

For United Kingdom Residents: This Investment Research complies with of the Financial Services Authority's Handbook's chapter on Conduct of Business and is approved by Canaccord Adams Limited, which is regulated and authorized by the Financial Services Authority, in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the Financial Services Authority. Canaccord Adams Limited accepts responsibility for this Investment Research and its dissemination in the United Kingdom. The information contained in this Investment Research is only intended for distribution in the UK to persons who qualify as intermediate customers or market counterparties, as defined under the rules of the Financial Services Authority.

For United States Residents: Canaccord Adams Inc., a US registered broker-dealer, accepts responsibility for this Investment Research and its dissemination in the United States. This Investment Research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any Designated Investment discussed should do so through a qualified salesperson of Canaccord Adams Inc..

For European Residents: If this Investment Research is intended for disclosure in any jurisdiction other than the United Kingdom, the US or Canada, then the relevant rules and regulatory requirements of that jurisdiction will apply.

Additional information is available on request.

Copyright © Canaccord Adams, a division of Canaccord Capital Corporation 2006. – Member IDA/CIPF
Copyright © Canaccord Adams Limited 2006. – Member LSE, regulated and authorized by the Financial Services Authority.

Copyright © Canaccord Adams Inc. 2006. – Member NASD/SIPC

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Adams, a division of Canaccord Capital Corporation, Canaccord Adams Limited, and Canaccord Adams Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.
